



STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

January 10, 2008



Dear Governor:

This budget proposes the difficult but necessary steps needed to bring the state's chronic structural deficit under control, not only for this fiscal year but permanently. This is accomplished by (1) imposing strict spending restraint in the current and budget years while protecting and preserving essential state services and (2) proposing a Constitutional Amendment to reform the budget process, so that state government has the tools to avoid spending more than it has in revenue in the future.

Since you signed the Budget Act of 2007, the budget situation has deteriorated significantly, resulting in a projected \$3.3 billion deficit in the current year that would grow to \$14.5 billion deficit in 2008-09 if left unchecked.

In order to close the \$14.5 billion budget gap, your budget proposes a 10-percent across-the-board reduction to most General Fund departments and programs, including the legislative and judicial branches, the Department of Finance and your own office.

In addition, today you are declaring a fiscal emergency and calling a special session of the Legislature to enact the necessary statutory changes to reduce spending immediately. At your direction, I will commence the process of selling the remaining \$3.3 billion in Economic Recovery Bonds to restore the reserve and avoid a potential cash shortfall.

Despite the necessity of closing the budget gap, the state must still continue to invest in its infrastructure to maintain and improve its quality of life and continue its economic growth. To accomplish that, the budget proposes to augment the existing Strategic Growth Plan with additional bond measures to be placed on the 2008 and 2010 general election ballots.

In the fall of 2007, California suffered one of its worst disasters in recent history when approximately 23 fires burned in southern California during October and November. This event highlighted the need to improve our fire prevention and suppression system, as indicated in the Governor's Blue Ribbon Fire Commission Report. Your budget proposes to establish the Wildland Firefighting Initiative to provide an additional \$100 million to fund firefighting efforts at the Department of Forestry and Fire Protection, Office of Emergency Services, and the California National Guard. This will be funded through a 1.25-percent surcharge on fire insurance policies.

Under your leadership, we can work with the Legislature to establish a responsible budget system that does not return the state to spending beyond its means. Please join me in expressing my sincere thanks to the women and men of the California Department of Finance and their families. Without our staff's dedication and hard work and the sacrifices of their families, this budget would not have been possible.

Sincerely,

Michael C. Genest  
Director of Finance